

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-01

INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06 SP-02

CIEP-02 LAB-04 SIL-01 OMB-01 INT-05 NSC-05 SS-15

STR-04 CEA-01 /098 W

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R 091844Z APR 76

FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC 9403

INFO AMCONSUL TORONTO VIA POUCH

AMCONSUL WINNIPEG VIA POUCH

UNCLAS OTTAWA 1423

E.O. 11652: N/A

TAGS: EMIN, CA

SUBJ: SASKATCHEWAN POTASH

1. TORONTO GLOBE AND MAIL OF APRIL 7 CARRIED REGINA DATELINE REPORT THAT SASKATCHEWAN GOVERNMENT MINISTERS PREDICT A MAJOR FEDERAL-PROVINCIAL CONFRONTATION IF PLANS, "NOW BEFORE THE FEDERAL CABINET", GO FORWARD TO TAX PROVINCIAL CROWN CORPORATIONS. (ENERGY, MINES AND RESOURCES MINISTER GILLESPIE REPORTEDLY TOLD THE COMMONS NATIONAL RESOURCES COMMITTEE ON MARCH 30 THAT THE CABINET IS CONSIDERING THE TAX-FREE STATUS OF CROWN ENTITIES IN THE WAKE OF SASKATCHEWAN'S PLANS TO TAKE OVER THE POTASH INDUSTRY.)

2. ACCORDING TO THE PRESS, PREMIER BLAKENEY SAID, "I DIDN'T KNOW THIS WAS A FEDERAL GOVERNMENT AREA. IT'S IN THE BRITISH CONSTITUTIONAL AMENDMENT". SASKATCHEWAN FINANCE MINISTER SMISHEK ADDED THAT, IF THE TAX EXEMPTION WERE ENDED, IT WOULD BRING THE "BIGGEST FIGHT EVER" BETWEEN OTTAWA AND THE PROVINCES, NOTING THAT OTHER PROVINCIAL CROWN CORPORATION, SUCH AS ONTARIO HYDRO, PACIFIC WESTERN AIRLINES AND QUEBEC CROWN CORPORATIONS IN SUGAR, OIL

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AND STEEL, WOULD ALSO HAVE TO BE TAXED. SMISHEK FURTHER

COMMENTED THAT THE TAX EXEMPTION IS "A TWO WAY STREET" AND SAID THE PROVINCE IN TURN WOULD TAX FEDERAL CROWN CORPORATION SUCH AS AIR CANADA AND CANADIAN NATIONAL RAILWAYS AND BELIEVES SASKATCHEWAN WOULD NOT LOSE ANY REVENUE OVERALL.

3. GLOBE AND MAIL ARTICLE CONCLUDES BY STATING THAT BLAKENEY HAS INDICATED THAT SASKATCHEWAN IS PREPARED TO NEGOTIATE PAYMENTS TO THE FEDERAL GOVERNMENT WITH REGARD TO ANY POTASH MINES IT ACQUIRES. ARTICLE ALSO RAISES POSSIBILITY THAT OTTAWA COULD APPLY AN EXPORT TAX ON POTASH (SIMILAR TO THE CHARGE ON OIL) TO PROTECT ITSELF FROM POSSIBLE LOSS OF INCOME TAX REVENUES FROM PROVINCIALLY OWNED POTASH MINES.

4. COMMENT: EMBASSY HAS ONLY BEEN ABLE TO LEARN THAT TAX-FREE STATUS OF CROWN CORPORATIONS IS CURRENTLY RECEIVING VERY CLOSE SCRUTINY IN OTTAWA AGENCIES AND THAT FEDERAL GOVERNMENT IS RELUCTANT TO ALLOW A PROLIFERATION OF SUCH CORPORATIONS INTO WHAT ARE ESSENTIALLY COMMERCIAL VENTURES WITH A CORRESPONDING LOSS OF FEDERAL TAX REVENUES.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PRESS COMMENTS, NATIONALIZATION, SASKATCHEWAN, POTASSIUM
Control Number: n/a
Copy: SINGLE
Draft Date: 09 APR 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976OTTAWA01423
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760136-0425
From: OTTAWA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760478/aaaacojm.tel
Line Count: 84
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: MartinML
Review Comment: n/a
Review Content Flags:
Review Date: 16 JUN 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <16 JUN 2004 by SilvaL0>; APPROVED <22 DEC 2004 by MartinML>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: SASKATCHEWAN POTASH
TAGS: EMIN, CA
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006